AUDITING PROCEDURES REPORT Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government City To	Type wnship Village	Other	Local Governm	ent Name	CUS	TER_	Cou	MASON		
Audit Date 2-29	Oninio	n Date	,	Date Accountar		ubmitted to Sta		MINON		
prepared in acc	ordance with the <i>at for Financial</i>	Statements	of the Gove	rnmental Ac	counting	Standards	Board (GA	s financial statements SB) and the <i>Uniforn</i> By the Michigar		
1. We have complied with the Bulletin for the Audits of Local Units of Government in Michigan as revised.										
	2. We are certified public accountants registered to practice in Michigan. LOCAL AUDIT & FINANCE DIV.									
the report of con	n the following. "Y nments and recor	'es" respons nmendation	ses have beer s	n disclosed i	n the fina	ancial staten	nents, inclu	ding the notes, or in		
You must check										
yes I no	Certain con	nponent unit	ts/funds/agen	cies of the Ic	ocal unit a	are excluded	d from the fi	inancial statements.		
yes no	There are earnings (P	accumulate .A. 275 of 1	d deficits in 980).	one or mor	e of this	s unit's unre	eserved fur	nd balances/retained		
yes no	3. There are in 1968, as an	nstances of nended).	non-complia	nce with the	Uniforn	n Accounting	g and Budo	geting Act (P.A. 2 o		
yes no	yes no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Actor or its requirements, or an order issued under the Emergency Municipal Loan Act.									
yes no	5. The local u of 1943, as	nit holds de amended (N	posits/investm //CL 129.91],	nents which or P.A. 55 o	do not c f 1982, a	omply with s s amended	statutory re [MCL 38.11	quirements. (P.A. 20 32]).		
yes no	6. The local ununit.	nit has been	delinquent in	distributing	tax reve	nues that w	ere collecte	ed for another taxing		
yes no	yes In 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paiduring the year).									
yes no	8. The local ur 1995 (MCL	nit uses cred 129.241).	lit cards and	has not ado	pted an a	applicable po	olicy as req	uired by P.A. 266 of		
yes no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).										
We have enclo	sed the followi	ng:			1	Enclosed	To Be Forwarde	Not ed Required		
The letter of com	ments and recom	mendations	. Pb	- 21		X				
Reports on individ	dual federal finan	cial assistar	nce programs	(program au	udits).			X		
Single Audit Repo	orts (ASLGU).							X		
Certified Public Ac	countant (Firm Nan	ne) BER,	THIAUN	IE & C	e)					
Certified Public Acc	60 HARA	ow la	/	City	AGIN	MW	State /	ZIP 48603		
Accountant Signatu	ire then	much.	11.80	Ilana.	1071					

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INDEPENDENT AUDITORS' REPORT

To the Members of the Village Council of the Village of Custer

We have audited the accompanying general purpose financial statements of the Village of Custer, Mason County, Michigan, as of February 29, 2004, and for the year then ended. These general purpose financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

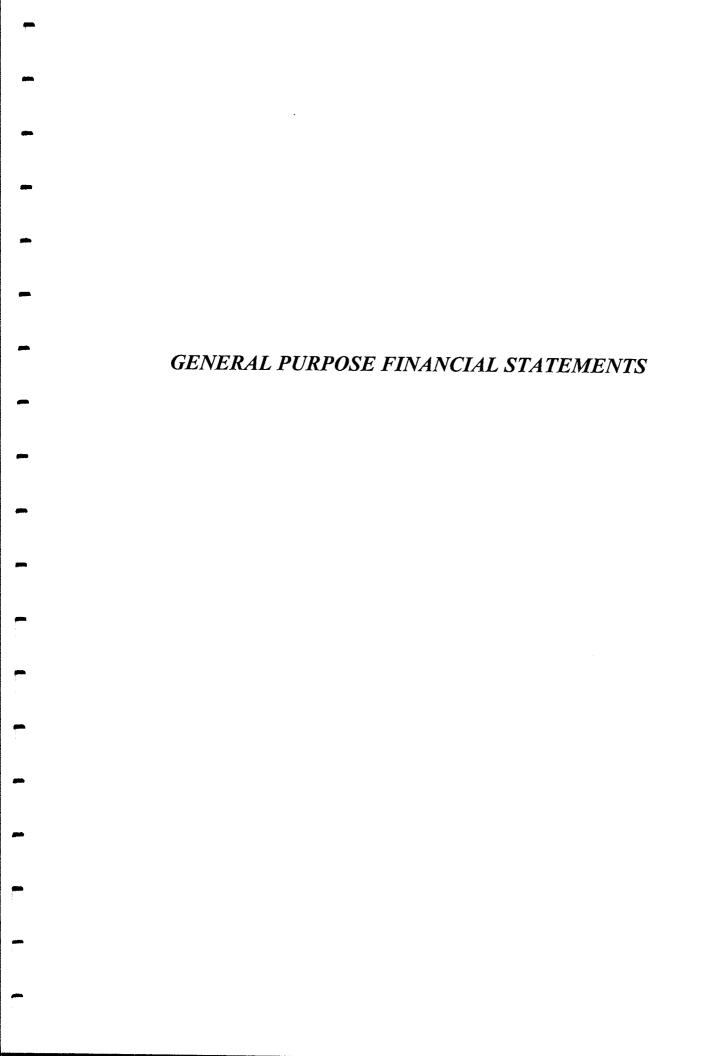
The Village of Custer has not maintained a record of its general fixed assets and, accordingly, a General Fixed Asset Account Group, required by generally accepted accounting principles, is not included in the general purpose financial statements. The amount that should be recorded in the general fixed asset group is not known.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly the financial position of the Village of Custer Mason County, Michigan, at February 29, 2004, and the results of its operations, and cash flows for its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 3, 2004 on our consideration of the Village of Custer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the Table of Contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the Village of Custer. The information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

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ALL FUND TYPES

COMBINED BALANCE SHEET

February 29, 2004

	GOVERNMENTALFUND TYPES		PROPRIETAR <u>FUND TYP</u> E	Y Totals	
	*****	General	 Special Revenue	Enterprise	(memorandum only)
ASSETS:					
Cash and cash equivalents Taxes receivable Accounts receivable Due from other governmental units	\$	148,572 4,021 1,520 6,385	\$ 132,264 - - 5,474	\$ 65,114 - 8,732	\$ 345,950 4,021 10,252 11,859
Due from other funds Property, plant, and equipment, net Restricted cash		75,000 - 13,779	713	4,811 2,225,287 57,038	80,524 2,225,287 70,817
Total assets	\$	249,277	\$ 138,451	\$ 2,360,982	\$ 2,748,710
LIABILITIES & FUND EQUITY: Liabilities: Accounts payable Due to other funds Long-term obligations Total liabilities	\$	6,869 5,524 - 12,393	\$ 3,186	\$ 218 75,000 388,000 463,218	\$ 10,273 80,524 388,000 478,797
Fund Equity: Contributed capital Retained Earnings: Reserved Unreserved Fund Balance: Unreserved:		-	-	1,667,407 57,038 173,319	1,667,407 57,038 173,319
Designated Undesignated		13,779 223,105	135,265	- -	13,779 358,370
Total fund equity		236,884	135,265	1,897,764	2,269,913
Total liabilities & fund equity	\$	249,277	\$ 138,451	\$ 2,360,982	\$ 2,748,710

ALL GOVERNMENTAL FUND TYPES

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

	GOVERNMENTAL FUND TYPES			Totals			
		General		Special Revenue	(mem	orandum only)	
REVENUES:							
Taxes	\$	11,183	\$	-	\$	11,183	
State grants		24,794		34,096		58,890	
Interest		684		521		1,205	
Rents		3,931		-		3,931	
Reimbursements		2,566		-		2,566	
Cable TV fees		2,201		-		2,201	
Other		201		_		201	
Total revenues		45,560		34,617		80,177	
EXPENDITURES:							
General government		16,890		_		16,890	
Public safety		1,529		-		1,529	
Public works		8,940		25,221		34,161	
Recreation and culture		1,000		· -		1,000	
Total expenditures		28,359		25,221		53,580	
Excess revenues over (under) expenditures		17,201		9,396		26,597	
Fund balance, beginning of year		219,683		125,869		357,945	
Fund balances, end of year	\$	236,884	\$	135,265	\$	384,542	

GENERAL AND SPECIAL REVENUE FUNDS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET & ACTUAL

	GENERAL FUND					SPECIAL REVENUE FUNDS					
					F	Variance Cavorable				V. Fa	ariance vorable
	_	Budget		Actual	(Ur	ıfavorable)	Budget		Actual (Ui	ıfav	orable)
REVENUES:											
Taxes	\$	14,000	\$	11,183	\$	(2,817)	\$ -	\$	-	\$	_
State grants		28,000		24,794		(3,206)	32,000		34,096	Ť	2,096
Interest and rents		3,200		4,615		1,415	1,600		521		(1,079)
Reimbursements		3,000		2,566		(434)	-		-		•
Cable TV fees		4,000		2,201		(1,799)	-		-		-
Other		2,000		201		(1,799)	1,000		-		(1,000)
Total revenues		54,200		45,560		(8,640)	34,600		34,617		17
EXPENDITURES:											
General government		18,900		16,890		2,010					
Public safety		1,850		1,529		321	-		-		-
Public works		9,000		8,940		60	105,350		25,221		80,129
Recreation and culture		1,000		1,000		-	105,550		-		-
Total expenditures		30,750		28,359		2,391	105,350		25,221		80,129
Excess revenues over (under) expenditures		23,450		17,201		(6,249)	(70,750)		9,396		80,146
Fund balance, beginning of year		219,683		219,683		_	125,869		125,869		-
Fund balance, end of year	\$	243,133	\$	236,884	\$	(6,249)	55,119	\$	135,265	\$	80,146

ALL PROPRIETARY FUND TYPES

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

	Enterprise
OPERATING REVENUES:	
Charges for services Rent	\$ 70,903 72
Total operating revenues	70,975
OPERATING EXPENSES:	
Personal services Operating supplies Utilities Contractual services Insurance Depreciation expense	1,697 1,880 2,418 5,500 400 51,622
Total operating expenses	63,517
Operating income (loss)	7,458
NON-OPERATING REVENUES (EXPENSES):	
Interest income Interest expense Total non-operating revenues (expenses)	1,458 (17,618) (16,160)
Net income (loss)	(8,702)
Add: Depreciation on fixed assets acquired with contributed capital	37,871
Increase (decrease) in retained earnings	29,169
Retained earnings, beginning of year	201,188
Retained earnings, end of year	\$ 230,357

ALL PROPRIETARY FUND TYPES

COMBINED STATEMENT OF CASH FLOWS

	Enterprise
CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating income	\$ 7,458
Adjustments to reconcile net income to net cash flows from operating activities:	,,,,,,
Depreciation	51,622
(Increase) decrease in accounts receivable	(1,443)
(Increase) decrease in due from other funds	(4,811)
Increase (decrease) in accounts payable	(260)
Net cash flow from operating activities	52,566
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Increase (decrease) in long-term debt	(7,000)
Interest expense	(17,618)
Net cash flows from capital and related financing activities	(24,618)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	1,458
Net cash flows from investing activities	1,458
Net increase (decrease) in cash and cash equivalents	29,406
Cash and cash equivalents, beginning of year	92,746
Cash and cash equivalents, end of year	\$ 122,152

NOTES TO FINANCIAL STATEMENTS

February 29, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies.

REPORTING ENTITY

The Village of Custer is located in Mason County, Michigan. The Village is governed by a five member Council which is elected by Village residents. Services provided to Village residents include fire protection, road maintenance, and general community enrichment services. As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of: (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

- 1) appoints a voting majority of the organization's board, and;
- 2) has the ability to impose its will on the organizations; or there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

FUND ACCOUNTING

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two generic fund types.

Governmental Funds:

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the Village are the Major and Local Street Funds.

February 29, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Proprietary Funds:

Enterprise Funds - Enterprise Funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, or other purposes. The Village's Enterprise Fund is the Sewer Fund.

BASIS OF ACCOUNTING

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Expenditures are recognized when the related fund liability is incurred. Modifications from the accrual basis are as follows:

- 1) Property tax revenue should be recognized in accordance with MCGAA Statement 3:
 - Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the County delinquent tax rolls.
- 2) Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- 3) Normally, expenditures are not divided between years by the recording of prepaid expenses.

PROPERTY, PLANT, AND EQUIPMENT

Additions to the sewer system are valued at historical cost or estimated historical cost if actual historical cost is not available. Depreciation is calculated on each class of depreciable property using the straight-line method based on the Village's estimate of each asset's useful life. One half year's depreciation is taken in the year of acquisition. The estimated useful lives are as follows: Sewer System - 40 years; Machinery and Equipment - 15 years.

CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, the Enterprise Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

TOTAL COLUMNS ON COMBINED STATEMENTS

The total column on the combined statements is captioned (memorandum only) to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

February 29, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

BUDGETS AND BUDGETARY ACCOUNTING

Budgets are adopted by the Village Council for the General Fund and the Special Revenue Fund. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect revenue and expenditures for these funds. The budgets are adopted at the functional level and control is exercised at that level. Budgeted revenues and expenditures include any authorized amendments of the original budgets as adopted. The budgets shown in the financial statements represent the final amended budgets approved by the Village Council.

FINANCIAL INSTRUMENTS

It is the Village's policy to not require collateral for financial instruments subject to off-balance sheet credit risk. Any losses incurred on financial instruments due to the nonperformance of other parties to the instruments would approximate the carrying value as of the balance sheet date. Enterprise fund receivables represent services provided to customers within the service area. Delinquent utility billings are placed on the tax roll and are therefore considered to be ultimately collectible.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Village carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Village has had no claims that exceeded the insurance coverage during the past three years.

CONTRIBUTED CAPITAL

In Proprietary Funds, grants, entitlements, or shared revenues received for capital acquisitions or construction are reported as "non-operating" revenues. Such resources externally restricted to capital acquisitions or construction are reported as Contributed Capital. Operation expenses include depreciation on all depreciable fixed assets. Depreciation recognized on assets acquired or constructed through such resources externally restricted for capital acquisition are amortized to the appropriate Contributed Capital account. The net income, adjusted by the amount of depreciation of fixed assets charged to Contributed Capital, is closed to Retained Earnings.

February 29, 2004

NOTE 2: DEPOSITS WITH FINANCIAL INSTRUCTIONS

LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 196, Public Acts of 1997, states the Village, by resolution, may authorize the Treasurer to invest surplus funds as follows:

- 1) In bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States.
- 2) In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which is a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Administration; but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Sections 5 and 6 of Act 105 of Public Acts of 1855, as amended.
- 3) In commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- 4) In United States government or Federal agency obligation repurchase agreements.
- 5) In bankers' acceptances of United States banks.
- 6) In mutual funds composed of investment vehicles which are legal for direct investments by local units of government in Michigan.

The Village maintains its cash deposits in a local financial institution in the name of the Village. The Village's carrying amount at February 29, 2004 is \$416,767 while the bank balance is \$416,767. Of the bank balance \$176,038 is covered by FDIC coverage. The Village's deposits are in accordance with statutory authority.

RESTRICTED CASH

Cash received from the State of Michigan to be used by the Village to enforce liquor laws is included in the General Fund in the amount of \$13,779. Restricted cash in the Enterprise Fund totaling \$57,038 represents amounts set aside in the Sewer Fund for bond reserves.

NOTES TO FINANCIAL STATEMENTS, continued

February 29, 2004

NOTE 3: REVENUE BONDS PAYABLE

On June 1, 1996, the Village entered into a loan agreement for \$675,000 with the United States Department of Agriculture, Farmers Home Administration for the cost of construction for a public sewer system. The bonds carry a stated interest rate of 4.5%. Interest is payable on May 1st and November 1 of each year. The note principal is due on May 1st of each year, with the final payment due on May 1, 2027. A schedule of principal balances due for the next five years is as follows:

2004	\$ 7,000
2005	8,000
2006	8,000
2007	8,000
2008	9,000
Years thereafter	 348,000
	\$ 388,000

Changes in long-term debt during the year are as follows:

	ı	Balance 3/1/03	Add	itions	Rea	luctions	Balance 2/29/04
Sanitary Sewer: Revenue bonds	\$	395,000	\$	-	\$	7,000	\$ 388,000

NOTE 4: PROPRIETARY FUND FIXED ASSETS

A summary of changes to the Sewer Fund fixed assets is as follows:

	 Balance 3/1/03	Addı	itions	Dele	etions	Balance 2/29/04
Land Plant and Equipment	\$ 74,753 2,555,108	\$	- -	\$	- -	\$ 74,753 2,555,108
	\$ 2,629,861	\$		\$	_	2,629,861
Less: Accumulated depreciation Current year depreciation						352,952 51,622
Total accumulated depreciation						404,574
Net Book Value						\$ 2,225,287

February 29, 2004

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

Interfund Fund	Receivable	Interfund Fund	Payable
General Local Streets Sewer	\$ 75,000 713 4,811	General Sewer	\$ 5,524 75,000
Total	<u>\$ 80,524</u>	Total	<u>\$ 80,524</u>

NOTE 6: BUDGETING

Public Act 621 of 1978 provides that a local unit of government shall not incur expenditures in excess of appropriations.

The Village's actual expenditures and budgeted expenditures for budgetary funds are shown in the financial statements on a functional basis.

During the year ended February 29, 2004, the Village incurred no expenditures in excess of amounts appropriated.

NOTE 7: CHANGES IN CONTRIBUTED CAPITAL

A summary of the changes in the Contributed Capital account is as follows:

	Contributed Capital
Beginning balance, March 1, 2003 Current year amortization	\$ 1,705,248 (37,871)
Ending balance, February 29, 2004	\$ 1,667,407

NOTES TO FINANCIAL STATEMENTS, continued

February 29, 2004

NOTE 8: RESERVED RETAINED EARNINGS

Ordinance 117 which authorized and provided for the issuance of the sanitary sewer system bonds, requires the maintenance of the following restricted reserved cash accounts:

Description Bond and Interest Redemption Fund Bond Reserve Account	Amount Required to be Set Aside as of 2/29/04
	\$ 21,355 14,198
Total	\$ 35,553

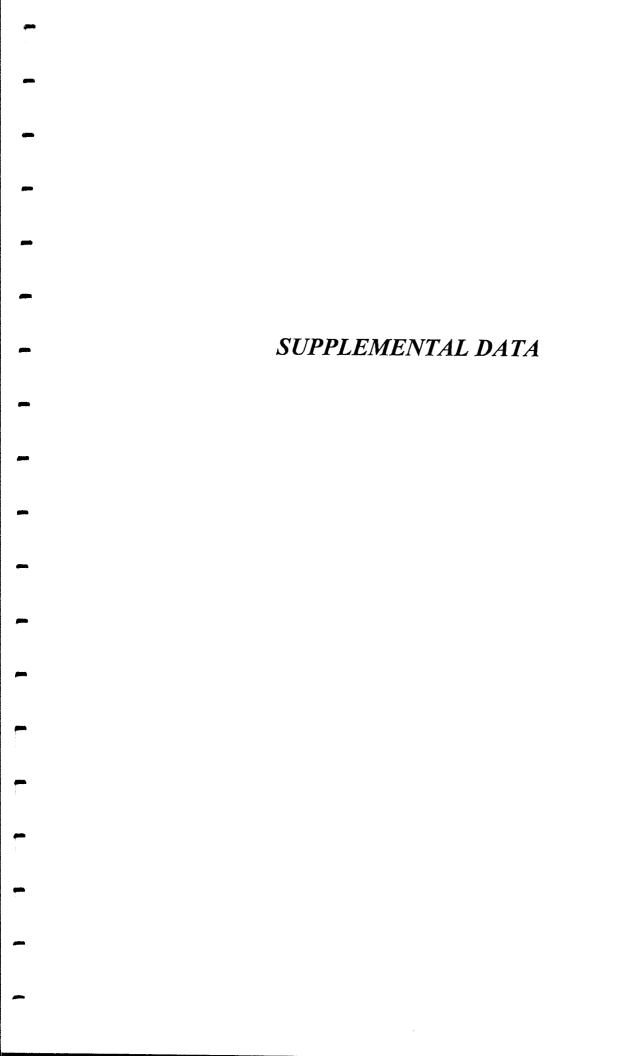
The Village, as of February 29, 2004, had \$57,038 set aside in certificates of deposit in accordance with the requirements of Ordinance 117.

NOTE 9: PROPERTY TAXES

For the year ended February 29, 2004, the Village levied 2.3511 mills for general operations. The taxable value of property in the Village was \$4,699,826.

NOTE 10: JOINT VENTURE

The Village participates in the Mason County Rural Fire Authority, a joint venture that provides fire protection services to several local governmental units in Mason County.



GENERAL FUND

STATEMENT OF REVENUES

REVENUES:	
Taxes: Property taxes Administration fees	\$ 11,022 161
	11,183
State Grants:	
Sales tax	24,794
	24,794
Interests, Rents, and Other:	
Interest	684
Rents	3,931
Reimbursements	2,566
Cable TV fees	2,201
Other	201
	9,583
Total revenues	\$ 45,560

GENERAL FUND

STATEMENT OF EXPENDITURES

For the Year Ended February 29, 2004

EXPENDITURES:

General Government	
Village Council	\$ 6,550
Village President	803
Elections	557
Clerk/Treasurer	3,078
Buildings and Grounds Other	4,297
	1,605
Total General Government	16,890
Public Safety:	
Fire Protection	1,529
Total Public Safety	1,529
Public Works:	
Highways, Roads, Streets, Bridges	3,052
Street Lighting	5,888
Total Public Works	8,940
Recreation and Culture:	-
Recreation/Parks	1,000
Total Recreation and Culture	1,000
Total expenditures	28,359

ALL SPECIAL REVENUE FUND TYPES

COMBINING BALANCE SHEET

February 29, 2004

	 Major Street		Local Street		Total	
ASSETS:						
Cash and equivalents Due from other governmental units Due from other funds	\$ 81,428 4,009	\$	50,836 1,465 713		132,264 5,474 713	
Total assets	\$ 85,437	\$	53,014	\$	138,451	
LIABILITIES AND FUND EQUITY:						
Liabilities:	\$ 2,969	\$	217	\$	3,186	
Fund Equity: Fund Balance:						
Unreserved, undesignated	 82,468		52,77		135,265	
Total liabilities and fund equity	\$ 85,437	\$	53,014	\$	138,451	

ALL SPECIAL REVENUE FUND TYPES

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

		Major Street		Local Street		Total	
REVENUES:							
State grants Interest	\$	24,999 326	\$	9,097 195	\$	34,096 521	
Total revenues		25,325		9,292		34,617	
EXPENDITURES							
Public works		23,853		1,368		25,221	
Total expenditures	····	23,853		1,368		25,221	
Excess of revenues over (under) expenditures		1,472		7,924		9,396	
OTHER FINANCING SOURCES (USES):							
Transfers from other funds Transfers to other funds		-		-		-	
Total other financing sources (uses)		-		-		-	
Excess of revenues and other financing sources over (under) expenditures and other uses		1,472		7,924		9,396	
Fund balance, beginning of year		80,996		44,873		125,869	
Fund balance, end of year	\$	82,468	\$	52,797	\$	135,265	



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OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Village Council of the Village of Custer

We have audited the general purpose financial statements of the Village of Custer, as of and for the year ended February 29, 2004, and have issued our report thereon dated May 3, 2004. Our opinion on these general purpose financial statements has been qualified to reflect the omission of a General Fixed Asset Group. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance:

As part of obtaining reasonable assurance about whether the Village of Custer's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the Village of Custer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

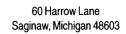
This report is intended for the information of the Village of Custer Council and Farmers Home Administration. However, this report is a matter of public record and its distribution is not limited.

Berthiaume & Company

Certified Public Accountants

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May 3, 2004



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MANAGEMENT LETTER

To the Members of the Village Council Of the Village of Custer

We have completed our audit of the financial statements of the Village of Custer for the year ended February 29, 2004, and have issued our report thereon dated May 3, 2004. As part of our examination, we made a study and evaluation of the Village's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Village's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Village's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Village taken as a whole. Our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of the Village management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our audit.

Berthiaume & Company Certified Public Accountants

v Lennich O-Guthraumi

May 3, 2004